

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
DODE-00 EB-08 DOE-15 H-02 INR-10 INT-05 L-03  
NSAE-00 NSC-05 OMB-01 PM-05 ICA-20 OES-09 SP-02  
SS-15 STR-07 TRSE-00 ACDA-12 PA-02 /142 W  
-----025844 181217Z /45

R 181130Z AUG 78

FM AMEMBASSY BONN  
TO SECSTATE WASHDC 1175  
USDOC WASHDC  
INFO AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY BRUSSELS  
AMCONSUL DUSSELDORF  
AMCONSUL FRANKFURT  
AMCONSUL HAMBURG

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PARIS ALSO FOR USOECD

BRUSSELS ALSO FOR USEEC

E.O. 11652 N/A  
TAGS: EIND, ENRG, GW, UK  
SUBJECT: BP-VEBA DEAL

REF: LONDON 8366

SUMMARY: THE DM 800 MILLION DEAL BETWEEN VEBA AG AND BP, ANNOUNCED ON JUNE 16, IS ONE OF THE BIGGEST TRANSACTIONS IN THE HISTORY OF THE GERMAN OIL INDUSTRY. THE PURCHASE OF STATE-CONTROLLED VEBA'S GELSENBERG SUBSIDIARY MAKES BP THE LARGEST OIL COMPANY OPERATING IN THE FRG, AND GIVES IT IMPROVED ACCESS TO THE GERMAN NATURAL GAS AND COAL MARKETS. THIS AGREEMENT ALLOWS UNCLASSIFIED

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BOTH COMPANIES TO REORGANIZE THEIR ACTIVITIES SO AS TO OVERCOME CHRONIC STRUCTURAL PROBLEMS. THE FEDERAL GERMAN GOVERNMENT HAS ALREADY SIGNALLED ITS APPROVAL OF THE AGREEMENT, BUT FINAL CONFIRMATION HINGES ON CONFIRMATION BY THE FEDERAL CARTEL OFFICE AND BY THE EC. A DECISION BY THE GERMAN CARTEL OFFICE IS EXPECTED BY MID-SEPTEMBER.

1. BRITISH PETROLEUM'S (BP) RECENT OFFER OF DM 800 MILLION FOR THE PURCHASE OF VEBA'S SUBSIDIARY, GELSENBERG, WILL MAKE BP THE LARGEST ENERGY COMPANY IN GERMANY. THE TAKEOVER OF GELSENBERG, WHICH IS TO BE EFFECTIVE JANUARY 1, 1979, ENCOMPASSES THE FOLLOWING CHANGES:

--(A) BP GETS A 25 PERCENT INTEREST IN THE SPEYER ELF/VEBA CHEMIE OHG REFINERY (RHINELAND-PFALZ) AS WELL AS A 50 PERCENT SHARE IN THE ERDOELRAFFINERIE INGOLSTADT (BAVARIA) GIVING BP AN ADDITIONAL REFINING CAPACITY OF 5.3 MILLION TONS A YEAR (1.8 MILLION TONS IN SPEYER AND 3.5 MILLION TONS IN INGOLSTADT).

--(B) BP GAINS CONTROL OF THE HUGO STINNES-STROMEYER COMBINE, THE SERVICES, TRADING, AND TRANSPORT ARM OF THE VEBA GROUP. THESE OPERATIONS HAVE AN ANNUAL SALES VOLUME OF SOME 7.5 MILLION TONS OF PETROLEUM PRODUCTS AND 1.8 MILLION TONS OF COAL. INCLUDED ALSO IS AN OPTION TO TAKE OVER THE SERVICE STATION NETWORK OF STINNES FANAL GMBH, COMPRISING APPROXIMATELY 1000 SERVICE STATION OUTLETS. ALL IN ALL, BP SHOULD, THROUGH ITS ACQUISITION OF THESE SECTORS OF THE STINNES ORGANIZATION, GAIN ACCESS TO ENTERPRISES WITH ABOUT A DM 3 BILLION ANNUAL TURNOVER.

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--(C) ONE OF THE MOST ENTICING PARTS OF THE DEAL FOR BP, IS THE ACQUISITION OF A 25 PERCENT STAKE IN THE PROFITABLE (DM 25-30 MILLION ANNUAL PROFIT) RUHRGAS AG, GERMANY'S LARGEST GAS DISTRIBUTOR. (VEBA RETAINS A 5.2 PERCENT INTEREST).

2. THROUGH THIS EXPANSION, BP WILL BE DIVERSIFYING AND STRENGTHENING ITS BASE IN THE GERMAN MARKET. LAST YEAR, BP GERMANY SUFFERED LOSSES OF DM 50 MILLION DUE TO THE DEPRESSED CONDITIONS IN THE REFINING SECTOR. BP WILL NOW MOVE INTO FIRST PLACE IN BOTH REFINING CAPACITY AND NUMBER OF GASOLINE STATIONS IN GERMANY, EUROPE'S BIGGEST NATIONAL OIL MARKET. IT WILL BOOST ITS SHARE OF THE OIL MARKET FROM 11.5 PERCENT TO ABOUT 17 PERCENT. BY COMPARISON, ESSO AG'S AND DEUTSCHE SHELL AG'S MARKET SHARES LAST YEAR AVERAGED 15.4 PERCENT AND 14.6 PERCENT RESPECTIVELY. GAINING ACCESS TO GERMANY'S COAL AND NATURAL GAS MARKET ARE ALSO VALUABLE BENEFITS OF THE DEAL.

3. THE ADVANTAGES ACCRUING TO VEBA IN THIS TRANSACTION INCLUDE A CONSIDERABLE INJECTION OF CAPITAL PLUS,

MOST IMPORTANTLY, AN ASSURED ANNUAL SUPPLY OF 3 MILLION TONS OF CRUDE OIL AT "COMPETITIVE PRICES" TO THE YEAR 2000. FURTHER, VEBA IS ABLE TO SHED A SPARE 5.3 MILLION

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TONS OF REFINING CAPACITY, ENABLING VEBA TO OPERATE ITS REMAINING REFINERIES AT 85 PERCENT OF CAPACITY INSTEAD OF THE CURRENT 60 TO 70 PERCENT.

4. FINALLY, VEBA WILL CONTINUE TO RETAIN THE GELSEN-BERG STAKE IN LIBYAN PRODUCTION AS WELL AS ITS 54 PERCENT STAKE IN DEMINEX, THE FRG SUPPORTED FOREIGN EXPLORATION-PRODUCTION GROUP.

5. THE FRG HAS INDICATED ITS APPROVAL TO THE BP-VEBA AGREEMENT. A GOVERNMENT SPOKESMAN SAID: BEGIN QUOTE.

THE GOVERNMENT HAS RAISED NO OBJECTIONS TO THE DEAL BETWEEN VEBA AND BP, PENDING APPROVAL OF THE CARTEL OFFICE, BECAUSE IT HAS A POSITIVE EFFECT BOTH IN TERMS

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OF INDUSTRY AND ENERGY POLICY.

VEBA CAN NOW BETTER ADJUST ITS REFINERY CAPACITY TO EXPECTED LONG-TERM NEEDS AND IMPROVE ITS PRODUCTION LEVEL BY BALANCING ITS REMAINING CAPACITY. THIS CONFORMS TO THE FRG'S POLICY THAT ENTERPRISES IN THE OIL SECTOR SHOULD ATTEMPT TO SOLVE STRUCTURAL PROBLEMS ON THEIR OWN INITIATIVE.

FROM THE PERSPECTIVE OF ENERGY POLICY, THE TRANSACTION NOT ONLY RESULTS IN AN INTERNAL STRENGTHENING OF OIL ACTIVITIES AND THEREBY HELPS MAINTAIN CAPABILITY FOR INTERNATIONAL COOPERATION, BUT AT THE SAME TIME IMPROVES SECURITY OF SUPPLY, THROUGH THE LONG TERM DELIVERY COMMITMENTS BY BP. END QUOTE.

IN REGARD TO THE SALE OF VEBA'S 25 PERCENT SHARE OF RUHRGAS, THE FRG SPOKESMAN SAID THIS SHOULD NOT BE JUDGED NEGATIVELY EVEN THOUGH IT MEANT THAT FOREIGN COMPANIES E.G. BP, SHELL, AND ESSO TOGETHER WOULD HAVE OVER 50 PERCENT OF THE SHARES OF RUHRGAS. THE QUESTION OF WHETHER THIS WOULD RESULT IN UNDESIRABLE INFLUENCE BY THE INTERNATIONAL OIL COMPANIES UPON STRATEGICALLY IMPORTANT RUHRGAS IS ONE OF THE DECISIVE POINTS TO BE CONSIDERED BY THE FEDERAL CARTEL OFFICE.

COMMENT: IN THE EVENT OF A NEGATIVE RULING BY THE CARTEL OFFICE, WHICH COULD BE ON GROUNDS OF NORMAL INDUSTRY CONCENTRATION CRITERIA AS WELL A THE RUHRGAS ISSUE, GOVERNMENT APPROVAL OF THE AGREEMENT IS STILL POSSIBLE, IF THE ECONOMICS MINISTER, GRAF LAMBSDORFF, USES HIS POWERS TO OVERRULE A CARTEL OFFICE DECISION. INDEED, SINCE THE MINISTRY HAS ALREADY GIVEN ITS

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BLESSING TO THE AGREEMENT AHEAD OF TIME, FINAL CON-  
SUMMATION OF THE DEAL DOES APPEAR TO BE MORE THAN  
LIKELY.

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## Message Attributes

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